

Message Text

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PAGE 01 MILAN 02355 221945Z

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TAGS: BBAK, EFIN, EINV, IT

SUBJECT: MORGAN BANK ITALIAN STRATEGY

1. IN MEETING WITH MORGAN GUARANTY OFFICIALS OCTOBER 19, CONSUL GENERAL AND ECON OFFICER DISCUSSED COMPANY'S RECENT ANNOUNCEMENT OF DECISION TO SELL MAJORITY INTEREST IN MILAN'S MORGAN VONWILLER AND TONYSTABLISH FULLY-OWNED BRANCH OF MORGAN GUARANTY AND TRUST IN ITALY. SALE OF MORGAN VONWILLER TO CREDITO ROMAGNOLO WILL BE EFFECTIVE NOVEMBER 4. MORGAN GUACNTY WILL OPEN BRANCHES IN MILAN AND ROME TO OPERATE ON SMALLER INVESTMENT AND WITH FEWER PERSONNEL. PRIVATELY-OWNED CREDITO ROMAGNOLO, EAGER TO BUY MILAN BANK SO AS TO EXPAND OPERATIONS FROM REGIONAL TO NATIONAL SCALE.

2. MORGAN OFFICERS EXPLAINED THAT MORGAN HAD LONG WANTED BRANCH IN ITALY BUT HAD ONLY BEEN AUTHORIZED PARTNERSHIP WITH ITALIAN BANK BY BANK OF ITALY WHICH HAS SOLE LICENSING POWER. FINALLY GIVEN GREEN LIGHT IN 1976 BOTH TO OPEN BRANCH AND TO SELL TO CREDITO ROMAGNOLO. MORGAN MOTIVES FOR SELLING MAJORITY INTERST IN MORGAN VONWILLER ARE SEVERAL. IT WILL REDUCE MORGAN'S CAPITAL EXPOSURE. AS MAJORITY OWNER OF VONWILLER, MORGAN HAD INVESTED OVER \$12 MILLION IN ONLY 51 PERCENT OF ITALIAN BANK. AXVLLY-OWNED BRANCH WILL REQUIRE INVESTMENT

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PAGE 02 MILAN 02355 221945Z

OF ONLY \$2 TO 3 MILLION. SALE OF VONWILLER WILL ALLOW

REALIZATION OF SIGNIFICANT CAPITAL GAIN THAT WILL BE REPATRIATED EXEMPT FROM ITALIAN TAX. MOREOVER, RISK OF BRANCH EVENTUALLY BEING NATIONALIZED IS MUCH LESS THAN THAT FOR DOMESTIC BANK LIKE VONWILLER.

3. SALE OF VONWILLER SHOULD ALSO BENEFIT MORGAN'S PROFIT POSITION. VONWILLER HAD STAFF OF ABOUT 270 EXPENSIVE EMPLOYEES WHO COULD NOT BE FIRED. NEW BRANCH WILL HIRE 40 TO 50 NEW HANDPICKED EMPLOYEES AND IN EFFECT REDUCE LABOR FORCE BY ABOUT 80 PERCENT. MORGAN BRANCH WILL ALSO BE ABLE LEGALLY TO PARTICIPATE IN FOREIGN EXCHANGE MARKET ON LARGER SCALE. THIS EXPECTED TO BE PROFITABLE, SINCE CITIBANK ITALY REPORTED OVER \$6 MILLION PROFIT LAST YEAR IN FOREIGN EXCHANGE OPERATIONS ALONE.

4. IN SHORT, MORGAN GUARANTY WILL NOW BE ABLE TO ENTER

MARKET WITH SMALLER INVESTMENT AND FEWER PERSONNEL BUT WITH FULL FORCE OF MORGAN. NEW OPERATION SHOULD PLACE MORGAN IN IMPROVED COMPETITIVE POSITION WITH CITIBANK AND CHASE MANHATTAN.

5. ALTHOUGH BANK OFFICERS PREDICTED COMMUNIST PARTICIPATION IN GOVERNMENT THEY MAINTAINED THIS HAD NOT STOOD IN WAY OF LONG-TERM DECISIONS TO ESTABLISH FULL BRANCH. THEY DESCRIBED MORGAN DECISION AS DESIGNED TO IMPROVE ITS COMPETITIVE POSITION AND AS SIGN OF CONFIDENCE IN LONG-TERM SOUNDNESS OF DOING BUSINESS IN ITALY.FINA

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